




The Deputy Secretary of Energy
Washington, DC 20585

May 16, 2003

MEMORANDUM FOR HEADS OF DEPARTMENTAL ELEMENTS
UNDER SECRETARY FOR ENERGY, SCIENCE
AND ENVIRONMENT
UNDER SECRETARY FOR NUCLEAR SECURITY

FROM: KYLE E. MCSLARROW 
SUBJECT: Performance and Accountability Reporting--FY 2003
Guidance and Requirements

The Department recently finalized its FY 2002 Performance and Accountability Report, which streamlines and integrates multiple reporting requirements. The major reporting requirements met by the Performance and Accountability Report are Department-wide performance results under the Government Performance and Results Act of 1993, audited financial statements under the Government Management Reform Act of 1994, and status of management controls under the Federal Managers' Financial Integrity Act of 1982.

The purpose of this memorandum is to establish your organization's overall FY 2003 reporting requirements and associated due dates. These requirements cover the FY 2003 reporting of performance results, management control status, management representations related to financial statements, and information related to research and development (R&D) expenses. This is the first year the requirement for R&D information is included with this guidance; in prior years, it was required as part of the budget input. This consolidated guidance provides a more complete picture of your organization's responsibilities for input to the FY 2003 Performance and Accountability Report. Detailed instructions delineating the specifics of these requirements are available to your staff at the following website: www.cfo.doe.gov/progliaison/PAR.htm.

While many of the FY 2003 requirements are essentially the same as last year, it is important to note that the reporting due dates have been accelerated. The Office of Management and Budget is accelerating the government-wide due date for FY 2004 performance and accountability reporting to November 15, 2004. To facilitate achievement of the accelerated FY 2004 due date, we are committed to an accelerated FY 2003 reporting due date of December 15, 2003. This is substantially earlier than last year's report and requires us to accelerate the due dates for your organization's inputs.

An area of emphasis in this year's Performance and Accountability Report process is to continue to improve the reporting of performance results. Overall, our past Performance and Accountability Reports have received high marks, including clean audit opinions on our financial statements; however, one area that the independent auditors have continued to identify as a reportable condition is the need for improvement in the reporting of performance results. The Department is firmly committed to making significant improvements in the FY 2003 performance reporting process, and to further implement corrective actions over the next year to ensure that this reportable condition is closed-out to the satisfaction of the auditors. Previously, the independent auditors have noted that the Performance and Accountability Report does not effectively demonstrate the Department's progress in achieving key outcomes, and as a result, it is unclear how American taxpayers benefit directly from many DOE programs and initiatives. This year, because of a tightly compressed reporting schedule, initial inputs received from your respective organizations must be of high quality. The narratives must be written in plain language, stating precisely what was accomplished relative to the established targets.

Due to the time constraints the Department is under, we request your assistance by adhering to the due dates for your organization's input. To assist you in this effort, a calendar of events that includes the due dates for major deliverables and a timeline for the FY 2003 reporting process is attached.

If you have any questions regarding this guidance, please direct them to Mr. John Newell, Director, Office of Program Liaison and Financial Analysis, at (301) 903-2551.

Attachment

cc w/attachment:

Chairman, Federal Energy Regulatory Commission
Non-NNSA:

- Field Chief Financial Officers
- Headquarters Office Resource Managers
- Management Control Action Officers
- Management Representation Letter Contacts
- Performance Measure Contacts
- Research and Development Contacts

DUE DATES FOR MAJOR DELIVERABLES
2003 PERFORMANCE AND ACCOUNTABILITY REPORT

Deliverable**Due Date****Research and Development Data**

Headquarters Elements and BPA submit Research & Development information

June 15, 2003

Status of Management Controls

Heads of Field Elements report to Lead Program Secretarial Officials
(copies to Cognizant Secretarial Officers)

August 15, 2003

Heads of Headquarters Elements, including NNSA, report to Secretary

September 10, 2003

Performance Results

Headquarters Elements report results achieved on goals and measures in performance plan

October 15, 2003

Management Representation Letters

Heads of Field Elements report to Lead Program Secretarial Officers and DOE
Chief Financial Officer (copies to Cognizant Secretarial Officers)

October 28, 2003

Selected Heads of Headquarters Elements report to Director, Office of Management,
Budget and Evaluation

November 17, 2003

KEY DATES

FY 2003 PERFORMANCE AND ACCOUNTABILITY REPORT

PERFORMANCE RESULTS

Select MD&A Perf Meas.	6/30
Draft 3 rd Qtr MD&A	8/31
Program Year End Input	10/15
Quality Review	10/20
Draft MD&A/DPR	10/27

FMFIA/REP LETTERS

Field FMFIA Ltrs	8/15
3 rd Qtr Dept Chall	8/31
3 rd Qtr Supp Fin Info	8/31
HQ FMFIA Ltrs	9/10
DICARC Meeting	10/7
FMFIA Dept Chall	10/15
CFO Msg	10/24
Y/E Supp Fin Info	10/24
Field Rep Ltrs	10/28

FINANCIAL STATEMENTS

1 st GC Rep Letter	8/29
3 rd Qtr Internal Stmts	8/31
Field Year End Input	10/10
Field Final Yr End Input	10/17
Allocate Mgr'l Costs	10/22
HQ Adjustments	10/24
PMA Input	10/24
Field Footnotes	10/27



PRODUCE DRAFT REPORT – 10/28



DRAFT REPORT TO PROGRAMS/OMB – 10/30

Begin S-1 coord	10/30
Receive HQ/OMB Comments	11/10
Resolve/Incorporate Comments	11/17
Receive HQ Mgt Rep Letters	11/17



FINAL DRAFT REPORT TO KPMG – 11/19

2 nd GC Rep Letter	11/26
DOE Rep Letter to KPMG	12/3
KPMG Audit Opinion	12/5



REPORT TO SECRETARY – 12/8

S-1 Signature	12/11
Publish Report	12/12



DELIVER FINAL REPORT – 12/15

FY 2003 PERFORMANCE REPORTING GUIDANCE

(Headquarters Organizations Only)

Introduction

The Government Performance and Results Act of 1993 (GPRA) requires that the Department establish annual performance goals and then report the actual results achieved towards those goals. The Joule performance monitoring and reporting system contains the complete set of revised final goals and measures for FY 2003. The performance goals are arranged by strategic plan goals, which identify the resources and offices that are held accountable for results.

Your office must report on the status of your organization's FY 2003 performance measures four times during Fiscal Year 2003: first quarter results for October 1, 2002 through December 31, 2002 (by January 31, 2003), second quarter results for January 1, 2003 through March 31, 2003 (by April 21, 2003), third quarter results for April 1, 2003 through June 30, 2003 (by July 21, 2003), and annual results (October 1, 2002 through September 30, 2003) by October 15, 2003. The schedule for the FY 2003 Performance and Accountability Report (PAR) has been significantly compressed, and the Department must deliver to the auditors a ready-for-publication draft PAR nearly 1-½ months ahead of last year's schedule. For this reason, end-of-year reporting must be accelerated from the standard three weeks to two, to avoid impacting the development schedule for the PAR and the DICARC meeting.

The end-of-year performance results for your annual targets are due by **October 15, 2003**, and are subject to audit as required by the Government Management Reform Act of 1994, because these results support the overview section of the financial statements. Therefore, offices should ensure that the information provided is accurate, complete, and that adequate supporting documentation is maintained. Before your office submits the performance results for your organization, it is essential that the performance information you report on your organization's annual targets is approved by your organization's senior leadership. In addition, you must maintain appropriate documentation on sources of data and information that you used to report performance results, and make this documentation available for audit on request. The Management Representation Letter that will be prepared as part of the FY 2003 public audit includes an assertion by your Secretarial Officer concerning the integrity of the data.

Quality Standards for Reporting:

The overall quality of Department-wide performance measures has, for several years, been identified as a Reportable Condition, and in FY 2002 became a Federal Managers' Financial Integrity Act (FMFIA) Management Challenge. Independent auditors and reviewers have repeatedly noted that the Department's Performance and Accountability Report does not always effectively demonstrate the Department's progress in achieving key outcomes and is, therefore, unclear as to how Americans benefit directly from DOE activities, because it includes:

- (1) Unclear, jargon-laden measures that do not always support agency objectives;
- (2) Performance assessments that are inconsistent with actual performance;
- (3) Insufficient explanations for shortfalls in performance;
- (4) Performance results that were not always accurate and valid;
- (5) Data that does not correspond to outcomes or outputs, but rather to tasks; and
- (6) Results that are reported as “Process” versus “Outputs and Outcomes.”

The Department has made significant progress in the last several years, and is well on its way to completing the required corrective actions necessary to eliminate performance measurement and reporting as a Reportable Condition in the FY 2003 report.

For FY 2003 reporting, since the Department is further constrained by the compressed schedule (the report is due to the auditors nearly 1 1/2 months sooner than in the past), your initial inputs into Joule must avoid the six recurring errors described above. The fourth quarter results and the Commentary text in Joule will be the basis of the reports. The Commentary must be in plain language and state precisely what was accomplished relative to the annual target. The Commentary should be brief (about 40-50 words). The use of acronyms is strongly discouraged, but if the use of an acronym cannot be avoided, then it must be spelled out with its first usage. Statements should be specific and reaffirm what was accomplished by repeating the words in the statement of the target when appropriate.

For situations where results for year-end will not be available by October 15, 2003, identify those targets promptly to PA&E as “Incomplete Results (data not available).”

Accessing Joule:

The Joule system is a web-based performance reporting system for the Department’s annual performance goals and measures contained in the Annual Performance Plan. Specifically designated individuals within DOE’s program offices have been provided with access privileges and training on entering and validating performance information in Joule. The Joule System Manager, Lynette Bandy, can be reached at (202) 586-2019 for additional information about accessing Joule. The URL address for Joule is: www.joule.doe.gov

PA&E is available to answer questions and assist you in preparing your submissions. If you require assistance, please contact:

Lynette Bandy	(ext. 6-2019)	PA&E’s Joule System Administrator, and for technical assistance with Joule;
Dick Rock	(ext. 6-5371)	For reporting on NNSA (DP/NA/NN/NR) and SO measures;
Mike Scott	(ext. 6-6289)	For reporting on NE measures;
Aileen Alex	(ext. 6-4255)	For reporting on EE, FE, EIA, and PMA measures;
Kevin Shaw	(ext. 6-5068)	For reporting on SC measures;
Sal Golub	(ext. 6-4043)	For reporting on EM, RW, EH, and WT measures; and
Jeff Newsome	(ext. 6-4052)	For reporting on CIO and ME measures.

REPORTING ON THE STATUS OF MANAGEMENT CONTROLS

(Field and Headquarters Reporting Elements, including NNSA)

The Federal Managers' Financial Integrity Act (FMFIA) and related Office of Management and Budget guidance require the Department to establish and maintain a management control program and to report annually on management controls to the President and Congress.

To support the Department's report, Heads of Departmental Elements, including NNSA, are required to report on the status of their organization's management controls, including reportable problems identified and progress made in correcting prior reportable problems. As in the past, the Heads of Field Elements are required to report to the Lead Program Secretarial Officer, with official copies simultaneously provided to the Cognizant Secretarial Officer(s). Heads of Headquarters' Elements and NNSA report to the Secretary, and if applicable, through the appropriate Under Secretary. The reports must cover the management controls in place for all programs and administrative functions under his or her cognizance. It is the responsibility of each organization to ensure that its report covers all activities within the organization's purview, including the cross-cutting areas of (1) environmental management, (2) nuclear safety management, and (3) non-nuclear safety management. Additionally, each organization's report should address any sensitive areas that have been identified during the year. For FY 2003, no sensitive areas have been identified.

The report should be based on the results of existing reviews and day-to-day knowledge of the organization's operations. Because significant realignments and cutback activities increase the risk that deviations from established policy will occur, special consideration should be given to the impact these have on management controls. The report is also required to consider the following:

1. DOE Order 413.1A, "Management Control Program." The Order contains requirements for reporting annually on the status of management controls and for conducting Summary Management Reviews and Summary Financial Management System Reviews for organizations with financial management systems.
2. The Department of Energy FY 2002 Performance and Accountability Report. Available electronically at www.cfo.doe.gov/stratmgt/DOE02rpt.pdf. The Secretary's FMFIA Report to the President and Congress was integrated into the Department's FY 2002 Performance and Accountability Report. The FY 2002 Performance and Accountability Report identified the most serious problems facing DOE as Significant Issues (previously referred to as Departmental Challenges) under the FMFIA program and described actions taken and planned to remove the deficiencies. Significant Issues were reported in the following 11

areas: Environmental Cleanup, Security, Nuclear Waste Disposal, Human Capital Management, Information Technology Management, Facilities and Infrastructure Management, Project Management, Performance Management, Stockpile Surveillance and Testing, Safety and Health and Program Oversight of Contractors. Each office should review the FY 2002 Performance and Accountability Report and ensure that careful consideration is given to evaluating controls related to the 11 Significant Issues. In addition, offices with responsibility for correcting the Significant Issues should provide an updated status of actions taken and planned and determine if additional action steps are appropriate. Action plans for FY 2002 Significant Issues are included in Attachment C-3. Specific actions that are planned for completion in FY 2003 are also included as actions in the FY 2004 Annual Performance Plan.

3. Inspector General Memorandum on IG Audit Reports and CFO Memorandum on GAO Audit Reports. These two memoranda are to be issued annually by May 31 to provide information on the IG and GAO audit reports that have been issued during the year. The contact for the Inspector General memorandum is Doug Gilliam at 202-586-5013. The contact for the CFO memorandum is Merley Lewis at 202-586-3469. These Inspector General and GAO audit reports should be carefully considered when preparing your report. Any areas that are the subject of significant adverse audit coverage should be included in your assurance memorandum.
4. Audit of the Department of Energy's FY 2002 Consolidated Financial Statements. Last year, the IG contracted with the accounting firm of KPMG LLP to conduct the audit of the Department's consolidated financial statements. Careful consideration should be given to findings issued at both the Departmental and local levels as a result of the FY 2002 audit. At the Departmental level, the auditors identified two reportable conditions in the Department's system of internal controls: 1) improve unclassified network and information systems security and 2) improve performance measurement reporting at the Department to satisfy the requirements of the Government Management Reform Act. In addition, the auditors identified a number of conditions that they did not consider to be reportable at the Departmental level. These were communicated to the appropriate Heads of Field Elements in separate management-level reports. Although the audit recommendations made in the management-level reports were not considered "reportable" for the Department, they are designed to strengthen internal controls and improve operating efficiencies. Therefore, if a management-level report was issued to your organization, these conditions should warrant the same consideration as reportable conditions identified at the Departmental level for purposes of preparing your assurance memorandum.

Year-end reports from Heads of Field Elements are to be submitted by August 15, 2003. Reports submitted by Field Elements should reflect the status of management controls as of the date of signature. Reports from Headquarters, including NNSA, cover Headquarters' operations, summarize any Field issues that should be reported to the

Secretary and are due by September 10, 2003. Headquarters reports should reflect the status of management controls as of the date of signature.

Specific reporting instructions to be utilized in the preparation and submission of the year-end reports follow. Attachment C-1 includes process instructions to be used, and Attachment C-2 includes financial management system requirements that Departmental Elements with financial management systems or system components are to use when conducting a Summary Financial Management System Review.

Any questions on these instructions should be directed to Lynn Harshman, Program Liaison and Financial Analysis on 301-903-2556.

2003 MANAGEMENT CONTROL PROGRAM REPORT INSTRUCTIONS

1. YEAR-END REPORT PROCESS INSTRUCTIONS

- a. Heads of Field Elements should submit assurance reports covering their program and administrative functions, financial management systems or system components, and the activities of Site/Facility Management Contractors (e.g., management and operating contractors, management and integrating contractors, and environmental restoration management contractors), if applicable. It is ultimately the responsibility of the Head of the Field Element to assure that site/facility management contractors under their purview are performing duties for the Department consistent with applicable laws and have sufficient management controls in place to safeguard government resources against waste, loss and unauthorized use. Site/facility management contractors are not required to perform summary management reviews or summary financial management system reviews in order to provide the necessary assurance, however, these site/facility management contractors should rely on existing internal and external reviews and day-to-day knowledge in order to provide assurances to the respective Head of Field Element. It is paramount that Field Elements receive assurances from all site/facility management contractors in order to adequately provide reasonable assurance that management controls are operating efficiently and effectively for their site.

Operations and Field Offices' reports are to be addressed to the Lead Program Secretarial Officer with official copies provided to the Cognizant Secretarial Officer(s). Power Marketing Administration reports are to be addressed to the Secretary. Heads of Field Elements' assurance memoranda are due August 15, 2003 and should reflect the status of management controls as of the date of signature.

- b. Heads of Headquarters Elements and National Nuclear Security Administration (NNSA) submit assurance memoranda covering their programs and administrative functions and, if applicable, summarizing Field and/or Headquarters' reportable problems at the overall Departmental level (for example, the Assistant Secretary for Environmental Management summarizes all environmental compliance problems for the Department). Those Headquarters organizations responsible for a financial management system or system component must also summarize the results of the summary financial management system review (see Attachment C-2 and DOE O 413.1 Chapter IV). In addition, Headquarters Elements are requested to update the action plans for the Significant Issues that are contained in Attachment C-3. Headquarters' reports are to be addressed to the Secretary through the appropriate Under

Secretary. NNSA and Headquarters' assurance memoranda are due September 10, 2003 and should reflect the status of management controls as of the date of signature.

- c. Both Field and Headquarters Elements, including NNSA, are required to simultaneously submit two hard copies of the year-end report, along with an electronic copy, in Word, provided by email to Beverly.pershing@hq.doe.gov, to the DOE CFO, ME-100, Rm C-176, Germantown. The CFO will distribute Field reports to Program Secretarial Officers and provide Field and Headquarters crosscutting issues to the cognizant Headquarters organizations.

2. ASSURANCE MEMORANDUM FORMAT The report format is provided in DOE Order 413.1A and consists of the following components.

- a. Memorandum. Executive level memorandum summarizing the results of evaluations conducted on the organization's management controls and financial management system, if applicable.
- b. Index and Crosswalk for Action Plans. A cover sheet providing an index and crosswalk for action plans submitted is required with the annual assurance memorandum.
- c. Action Plans. Action plans are required for all reportable problems and nonconformances identified in the assurance memorandum. The action plan instructions contained in DOE Order 413.1A, Chapter V, shall be adhered to.
- d. Departmental Action Plans. Each FY 2002 Significant Issue (previously called Departmental Challenge) has a corresponding action plan including assignment of responsible program manager(s) and the office and person responsible for each critical milestone. The corrective action plan for each FY 2002 Significant Issue is contained in Attachment C-3. Action plans and critical milestones related your organization's Significant Issue(s) should be updated and included in the index and crosswalk of the assurance memorandum submission.

FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS

Departmental Elements with financial management systems or system components included in the DOE Financial Management System Inventory are required to conduct Summary Financial Management System Reviews annually. Information on the DOE Financial Management System Inventory and the Summary Financial Management System Reviews is contained in DOE O 413.1A, Chapter IV.

In conducting the Summary Financial Management System Reviews, managers are to consider existing information they have at their disposal. Using that information, managers are to then determine whether their system or system component is operated as designed and complies with government-wide financial management system requirements. Following are the GAO and specific OMB standards the financial management system is required to comply with:

1. OMB CIRCULAR A-127, FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS. The financial systems shall adhere to the requirements contained in Circular A-127, FINANCIAL MANAGEMENT SYSTEMS. This Circular was updated by Transmittal Memorandum No. 1, dated July 1993. This Transmittal memorandum contains updated guidance which eliminates unnecessary overlap between Circular No. A-127 and Circular A-123, "Internal Control Systems"; eliminates unnecessary overlap between Circular No. A-127 and with Circular A-130, "Management of Federal Information Resources"; clarifies terminology and definitions; updates the Circular for statutory and policy changes; clarifies certain agency responsibilities; and eliminates outdated guidance.

To further emphasize the adherence to these federal financial management system requirements, the President enacted the Federal Financial Management Improvement Act of 1996 (FFMIA). Following are the A-127 requirements:

- a. **Agency-wide Financial Information Classification Structure.** The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger, provides for tracking of specific program expenditures, and covers financial and financially related information. The structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting, and financial management reporting processes by

providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement, and financial statement preparation.

- b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

- Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U.S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.

- Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

- Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

- Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once, and other parts of the system shall be updated through electronic means consistent with timing requirements of normal business/transaction cycles.

- c. Application of the U.S. Government Standard General Ledger (SGL) at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the SGL at the transaction level. Application of the SGL at the transaction level means that the financial management system will process transactions following the definition and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

- Data in Financial Reports consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or

externally, shall provide financial data that can be traced directly to the SGL accounts.

--Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

--Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.

- d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB and/or the Secretary of the Treasury. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

All 21 of the following Statements of Federal Financial Accounting Standards (SFFAS) have been recommended by the Federal Accounting Standards Advisory Board, and all have been accepted by Congress and officially promulgated by OMB:

- SFFAS 1 -- Accounting for Selected Assets and Liabilities
- SFFAS 2 -- Accounting for Direct Loans and Loan Guarantees
- SFFAS 3 -- Accounting for Inventory and Related Property
- SFFAS 4 -- Managerial Cost Accounting Concepts and Standards
- SFFAS 5 -- Accounting for Liabilities of the Federal Government
- SFFAS 6 -- Accounting for Property, Plant, and Equipment
- SFFAS 7 -- Accounting for Revenue and Other Financing Sources
- SFFAS 8 -- Supplementary Stewardship Reporting
- SFFAS 9 -- Deferral of Implementation Date for SFFAS 4
- SFFAS 10 -- Accounting for Internal Use Software (amends SFFAS 6)
- SFFAS 11 -- Amendments to Accounting for PP&E – Definitions
(amends SFFAS's 6 and 8)
- SFFAS 12 -- Recognition of Contingent Liabilities from Litigation (amends SFFAS 5)
- SFFAS 13 -- Deferral of Para 65.2 - Material Rev-Related Transactions
(amends SFFAS 7)
- SFFAS 14 -- Amendments to Deferred Maintenance Reporting (amends SFFAS's 6 and 8)
- SFFAS 15 -- Management's Discussion and Analysis
- SFFAS 16 -- Amendments to Accounting for PP&E - Multi-Use Heritage Assets (amends SFFAS's 6 and 8)

SFFAS 17 -- Accounting for Social Insurance
 SFFAS 18 -- Amendments to Accounting Standard for Direct Loans and Loan Guarantees (amends SFFAS 2)
 SFFAS 19 -- Technical Amendments to Accounting Standard for Direct Loans and Loans Guarantees (amends SFFAS 2)
 SFFAS 20 -- Elimination of Certain Disclosures
 SFFAS 21 -- Reporting Correction of Errors and Changes in Accounting Principles
 SFFAS 22 -- Change in Certain Requirements for Reconciling Obligations and Net Costs of Operations
 SFFAS 24 -- Selected Standards for the Consolidated Financial Report of the United States

- e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

--Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory, and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

--Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management, and financial statement presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management system.

- f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular A-11, "Preparation and Submission of Budget Estimates," OMB A-34, "Instructions on Budget Execution," and other circulars and bulletins issue by OMB.
- g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems.

Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program (JFMIP). Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to expeditiously implement new functional requirements as they are established and/or made effective. The following Federal financial management system requirements have been issued by the JFMIP:

- Core Financial System Requirements (November 2001)
- Human Resources/Payroll System Requirements (April 1999)
- Travel System Requirements (July 1999)
- Seized/Forfeited Asset System Requirements (December 1999)
- Direct Loan System Requirements (June 1999)
- Guaranteed Loan System Requirements (March 2000)
- Inventory Systems Requirements (June 1995)
- System Requirements for Managerial Cost Accounting (February 1998)
- Benefit System Requirements (September 2001)
- Grant Financial System Requirements (June 2000)
- Property Management System Requirements (October 2000)

- h. Computer Security Act Requirements. Agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987, Circular A-130, for those financial management systems that contain "sensitive information" as defined by the Computer Security Act and the Government Information Security Reform Act which primarily addresses the program management and evaluation aspects of information security.
- i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with the requirements contained in the Federal Financial Management Systems Requirements document published by JFMIP or other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications, and operating instructions shall be adequate to enable technical personnel to operate the system in an effective manner.
- j. Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports.

Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by OMB Circular A-123.

- k. Training and User Support. Adequate training and appropriate user support shall be provided to the users of the financial management systems, based on the level, responsibility and roles of individual users, to understand, operate and maintain the system.
 - l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices and make appropriate modifications.
2. GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES. The financial systems shall incorporate the applicable requirements contained in Title 2, "Accounting," Title 6, "Pay, Leave, and Allowances," and Title 7, "Fiscal Procedures," of the GAO Policies and Procedures Manual. In recent years, changes in certain laws; the creation of the Federal Accounting Standards Advisory Board (FASAB); the establishment of the Advisory Council on Government Auditing Standards; and the different medium GAO has used to publish guidance (e.g. the Yellow Book and the Green Book on internal control standards) have rendered material in the existing manual to be outdated.

ATTACHMENT C-3

ENVIRONMENTAL CLEANUP

RESPONSIBLE PROGRAM MANAGER

Jessie Roberson
Assistant Secretary
Environmental Management

DESCRIPTION OF PROBLEM

One of the Department's most ambitious and far ranging missions is dealing with the environmental legacy of the Cold War. As a result of this era, the Department continues to address significant long-term environmental restoration and waste management challenges at its facilities. Even though these issues resulted from activities conducted in a different atmosphere and under less stringent standards than today, the Department is committed to maintaining our compliance with current Federal and state laws and agreements. The Department manages some of the most technically challenging and complex work of any environmental program in the world. Due to the complexity and size of the challenge, constant management attention must be given to a process of continually evaluating and correcting the impacts of past operational practices and characterizing and minimizing possible impacts of present and future activities.

PRIOR YEAR ACCOMPLISHMENTS

Many of the Department's compliance agreements with states were originally negotiated when the production of nuclear weapons was a key mission and the availability of environmental management data to make informed decisions was minimal. Consequently, the deadlines and expectations of the original agreements were not realistic and required renegotiations. Progress continues to be made to ensure that facilities are in compliance with environmental regulations and that they remain in compliance while the restoration and waste management efforts continue to progress to completion. To address these environmental problems, the Department has made substantial progress over the past decade in cleaning up the nuclear weapons complex. In FY 2001, the Department completed cleanup of 74 of the 113 contaminated geographic sites for which it has responsibility.

Since 1997, the Department has been implementing a site closure initiative to improve program management, accelerate and complete cleanup, close as many sites or portions of sites as possible by 2006. This initiative has evolved into the Department's strategic objective within the Environmental Quality business line.

**DOE Management Control Program
January 31, 2003**

Attachment C-3 ²

Completion Date

PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Planned/ Actual Date	Responsible Office	Responsible Individual
Conduct a top-to-bottom review of the Environmental Management program to ensure a proper and clear focus of the mission, programmatic goals and objectives.	None	2002 (Completed)	EM	Jessie Roberson
Implement Performance Management Plans at each site consistent with signed Letters of Intent documenting the agreed to cleanup strategy at each site.	N/A	9/2003	EM	Jessie Roberson
Implement an integrated resource-loaded project baseline.	N/A	9/2003	EM	Jessie Roberson

PROGRESS STATUS

The Department has been implementing a site closure initiative to improve program management, accelerate and complete cleanup and close as many sites or portions of sites as possible by 2006. During FY 2002, the Department conducted a Top-to-Bottom Review (Review) of all aspects of the Environmental Management program and identified opportunities for achieving more and faster cleanup for the funds invested, supporting efforts to comply with regulatory agreements and maximizing value received for the resources expended. As a result of the Review, the Department developed an aggressive plan of action to change its cleanup mission approach and future milestones. The Department is now focusing to reduce risk to public health, workers, and the environment on an accelerated basis and at reduced life-cycle costs. Based on this new approach, the Department is currently defining risk reduction cleanup strategies on a site-by-site basis that will develop into Letters of Intent and Performance Management Plans. The Performance Management Plans and an integrated resource-loaded project baseline will be implemented by the end of fiscal year 2003. These plans rely on other ongoing efforts (for example schedule integration) within the Department for the permanent disposition of the waste to be removed from the cleanup sites. Based on the completion of the Performance Management Plans and related activities, the Department believes its new cleanup strategy will be in place.

In addition, the Department has established a hierarchical performance measurement system that delineates programmatic strategic performance goals from the Departmental level through to the contractors performing the work. The process has been modified as a result of the Top to Bottom Review conducted of the Environmental Management program. The Department will align its performance metrics and milestones with the new approach of accelerated cleanup and risk reduction. The Department's goal in developing new performance measures will be to provide measures that clearly capture, at any point in time, the overall progress towards completion of the end-point objective of site cleanup. The Department's performance measures will be developed to accurately reflect overall program performance and monitor overall progress towards the goal of reducing risk and accelerating cleanup while reducing life-cycle costs.

PROPOSED CLOSURE DATE - 2003

The Department has targeted FY 2003 for completion of the activities necessary to complete this phase of the new cleanup strategy and will reexamine this corrective action plan at that time.

SECURITY

RESPONSIBLE PROGRAM MANAGERS

Joseph S. Mahaley
Director, Office of Security

Karen S. Evans
Chief Information Officer

Bruce M. Carnes
Director, Office of Management, Budget
And Evaluation/Chief Financial Officer

DESCRIPTION OF PROBLEM

Although the Department has taken positive actions to strengthen security activities, additional improvements are needed. In addition, recent terrorist activities have prompted the Department to consider new evolving security threats and a need to identify and implement new security measures. The Department must aggressively address the challenges presented by a need for improved homeland defense, threats posed by terrorists, and the threat of weapons of mass destruction. To this end, we must develop a long-range strategic plan for the Department's security posture, conduct threat analyses to establish the framework for continually improving security protective measures, continue to implement corrective actions for cyber security, and enhance the physical security of our facilities. It is anticipated that we will have to commit significant additional resources to protect against these new evolving threats.

PRIOR YEAR ACCOMPLISHMENTS

The Department has taken a number of actions to improve security activities. During FY 2002, we drafted a Department-wide Strategic Plan for Security and issued an Interim Design Basis Threat Analysis based on post September 11, 2001, events for budget planning purposes. The Department published the Annual Policy Assessment Report in October 2002, which promulgates safeguards and security technological solutions to meet priority needs. Both the Design Basis Threat Analysis and the Annual Policy Assessment Report will be refined on an annual basis as conditions change, and will serve to establish the framework for continually improving security protective measures throughout the Department.

The Department has addressed Inspector General (IG) recommendations on classified information systems by finalizing the appraisal process guide for documenting cyber security reviews and the technical standard operating procedure to provide guidance for conducting cyber security performance testing. The Department has implemented prior IG recommendations relating to "Virus Protection Strategies and Cyber Security Incident Reporting" by adopting and utilizing a Department virus solution application and finalization of DOE N 205.4, Handling Cyber Security Alerts and Advisories and Reporting Cyber

Security Incidents, to clarify incident handling and reporting procedures. In addition, during FY 2002, the Department made significant progress in addressing the IG's recommendations on the Unclassified Cyber Security Program. Specifically, the Cyber Security Improvement Plan was developed and the Department promulgated a series of directives to support the policy document, P205.1. We have performed ten cyber security inspections and 21 limited scope or follow-up cyber security reviews, nine safeguards and security evaluations and 17 limited scope or follow-up reviews to evaluate specific topics and corrective actions.

With respect to Counterintelligence, the Department has implemented the remaining 4 recommendations of the total 46 recommendations in our Counterintelligence Implementation Plan, providing improvements in areas such as the security clearance adjudication process, controls over foreign national use of high performance computers and performance measures addressing counterintelligence responsibilities and expectations. All actions related to counterintelligence were completed during FY 2002 and counterintelligence is no longer considered part of this significant issue.

	Projected Completion Date			
PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Develop and publish a 10-year Department-wide Strategic Plan for Security, in conjunction with NNSA and LPSOs, (revise plan on periodic basis).	08/02	03/03	SO Lead	Joseph Mahaley
The CFO will work with NNSA and LPSO's in revising budget requests and coordinate supplemental security funding requests for enhanced Department-wide security measures to meet evolving security threats.	N/A	12/02	OMBE Lead	Patricia Hodson
Implement IG recommendations directed at the Department's Unclassified Cyber Security Program through the Cyber Security Performance Improvement Plan and the release of a series of implementation directives.	2002	09/03	CIO Lead SO	Karen Evans
Improve metrics for successful implementation of Department-wide cyber security measures and incorporate significant cyber security metrics in Departmental performance plans.	N/A	09/03	CIO	Karen Evans
Develop revised Department-wide Strategic Plan for Security to provide a framework for emerging threats from the existing 10-year to a	N/A	09/03	SO	Joseph Mahaley

25-year period.				
Implement increased security protective measures for DOE facilities in the national capital area.	N/A	09/03	SO	Joseph Mahaley
Upgrade security training and education programs at Non-proliferation and National Security Institute to meet challenges created by increased security threats.	N/A	09/03	SO	Joseph Mahaley
Complete Study to refocus the Department's Emergency Operations Center to a state-of-the-art response facility that maintains current information on security and other critical operational conditions for the Department.	N/A	09/03	SO	Joseph Mahaley
Finalize development of a Department-wide Continuity of Operations Plan and explore alternate back-up locations.	N/A	09/03	SO	Joseph Mahaley
Enhance the Executive Protection Force.	N/A	09/03	SO	Joseph Mahaley
In conjunction with the Nuclear Regulatory Commission, validate data on Government-owned nuclear materials, including sealed sources, in the Nuclear Materials Management and Safeguards System at non-Departmental facilities, to address Inspector General audit and emerging security issues.	N/A	09/03	SO	Joseph Mahaley

PROGRESS STATUS

Although the Department has made significant progress, improving security is an iterative and evolving improvement process, especially with the renewed emphasis placed on this program as a result of the September 11, 2001, terrorist attacks. The Department has reemphasized that our overarching mission is national security. To this end, we are aggressively addressing the challenges presented by a need for improved homeland defense, threats posed by terrorists, and the threat of weapons of mass destruction. To respond to these threats and allocate adequate Departmental resources to these missions will likely have far reaching consequences for the Department's budget, programs, and organization. The Department has developed a set of manuals that cover Risk Assessment, Verification and Validation, Configuration Management, and Certification and Accreditation for unclassified systems and during FY 2003 the manuals will be released for comment. The manuals will provide the framework for a Risk Management approach to provide a level of protection for unclassified systems commensurate with the risk to these systems. The Departmental Cyber Security metric package is in final review and will be published during FY 2003. In addition, improvements will be made to physical security during FY 2003 by increasing security

protective measures for DOE, upgrading security training and education and enhancing the Executive Protection Force. Independent assessments performed by the Office of Independent Oversight and Performance Assurance continue to provide the Secretary and senior managers information pertaining to the effectiveness of the Department's security policies and programs through increased capabilities and focus on performance testing for cyber security and physical security evaluations.

PROPOSED CLOSURE DATE

The completion of identified milestones indicate a closure date of 2003, however, because improving security is an iterative and evolving process, we anticipate that the final correction of this issue will be a long-term effort.

SAFETY AND HEALTH

RESPONSIBLE PROGRAM MANAGERS

Glenn S. Podonsky
Director
Independent Oversight & Performance Assurance

Beverly A. Cook
Assistant Secretary
Environment, Safety and Health

Linton F. Brooks
Administrator
National Nuclear Security Administration

Jessie Hill Roberson
Assistant Secretary
Environmental Management

Raymond L. Orbach
Director, Office of Science

William D. Magwood, IV
Director, Nuclear Energy, Science &
Technology

DESCRIPTION OF PROBLEM

Many of the Department's facilities had safety deficiencies that were addressed to ensure the Department's ability to provide for the health and welfare of both our workers and the public. The Department had identified non-conformances with nuclear safety requirements, and weaknesses in meeting technical safety requirements. Vulnerabilities were also identified at some of the Department's facilities used to store spent nuclear fuel and other nuclear materials in implementing the Nuclear Safety Rule. In addition, occurrences throughout the Department's sites indicated a need for increased management attention to continue improving integrated safety management with particular emphasis on feedback and improvement mechanisms and compliance with environment, safety and health requirements.

PRIOR YEAR ACCOMPLISHMENTS

The safety and health of the Department's workers and the public is one of our top priorities. The Department has taken steps to improve public confidence in its ability to safely operate its facilities. Key initiatives the Department has taken include: implementing Integrated Safety Management (ISM) which is a major component of the Department's long term safety and health strategy; upgrading safety standards; assessing safety conditions at facilities storing spent nuclear fuel, other nuclear materials and high level waste; establishing clear lines of authority and responsibility; elevating safety awareness of employees; and taking corrective actions at facilities with safety deficiencies. The Department has taken steps to strengthen its epidemiology program, as well as establish programs for increased management attention towards the ongoing implementation of conduct of operations and compliance with environment, safety, and health requirements. In July 2001, the Secretary, recognizing the importance of ES&H oversight, assigned responsibility for all independent oversight functions to a new office that directly reports to the Deputy Secretary. During FY

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1999 and 2000, the Department completed a two-phase onsite investigation focusing on concerns related to worker and public safety at the Paducah site. The Phase I investigation focused on issues and concerns raised within the last 10 years and resulted in a corrective action plan that has been monitored by the Office of Independent Oversight and Performance Assurance. The Paducah Phase II investigation was also completed and a determination was made that no corrective actions were necessary. In FY 2000, the Department completed the Nuclear Safety Standards Upgrade Project to assure that nuclear activities are accomplished safely.

The Department has also worked to provide medical screenings to all Departmental workers formerly exposed to beryllium. The Department established a beryllium registry during FY 2001 that operates as a surveillance program to monitor workers exposed or potentially exposed to beryllium. During FY 2001, the Department also continued a strong “hands on” oversight process by conducting six safety management evaluations which support the ability to monitor conduct of operations and the implementation of current safety standards. The Department has also completed substantive actions correcting the vulnerabilities previously identified with the storage of spent nuclear fuel and monitoring activities will continue to ensure the timely resolution of the remaining actions.

Projected Completion Date

**PLANNED CRITICAL
MILESTONES**

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Fully implement Integrated Safety Management at all DOE sites.	2001	9/03	EH Line PSOs	Beverly Cook
Conduct independent safety assessments at the Oak Ridge Operations Office to evaluate the safety posture for defense nuclear facilities, the available technical expertise and the review/approval processes.	N/A	9/03	OA	Glenn Podonsky
Address concerns regarding the effectiveness of ISM for selected contractors at Oak Ridge Operations Office	N/A	9/03	SC	Raymond Orbach

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Complete planned updates of safety analysis documentation at our sites with nuclear facilities to comply with the Nuclear Safety Rule.	N/A	4/03	NNSA EM SC NE	Linton Brooks Jessie Roberson Raymond Orbach William Magwood
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PROGRESS STATUS

As of June 2002, all sites completed implementation of ISM. However, safety concerns with ongoing operations were identified at the Oak Ridge Operations Office and caused the earlier implementation at the Operations Office and one of its contractors to be revoked. Oak Ridge Operations Office plans to commission an independent verification of that contractor and the Federal ISM program during FY 2003. Upon completion of these reviews, management will make an assessment of ISM implementation. Operations of NNSA facilities have also been impacted by a hold on activities to restart the Y-12 enriched uranium reduction process due to unresolved safety issues. During FY 2002 the Department completed all safety and health issues identified with the Paducah Phase I corrective actions and corrected safety issues that were impacting the restart of the Y-12 enriched uranium reduction process.

Changes in the Department's management structure, that were effective in FY 2002, transferred the responsibility for independent oversight of the Environment, Safety and Health Programs to the Office of Independent Oversight and Performance Assurance. This transfer gave the Office of Independent Oversight and Assurance authority to conduct independent oversight in DOE Order 470.2A, "Security and Emergency Management Independent Oversight and Performance Assurance Program". This policy order has been revised to reflect the new responsibilities and to provide a consistent set of requirements for the corrective action process used to address findings. This revised policy was coordinated throughout the Department and is scheduled for approval and distribution in early FY 2003. During FY 2002, the Office of Independent Oversight and Performance Assurance conducted independent inspections of ES&H program management and implementation at nine sites.

The Department conducts an annual Executive Safety Summit to define our path forward for implementing safety management initiatives and applying an integrated management approach to our missions and activities. This conference emphasizes the Department's ongoing commitment to enhance safety and identify implementing actions to assist in the furtherance of safety goals.

Full implementation of the Nuclear Safety Rule will provide a high degree of confidence that hazards are understood and controls are maintained to ensure our facilities reach the highest-level of safety performance. Management attention is being focused to ensure that facility compliance plans and schedules meet the requirement for upgraded facility safety basis. An assessment conducted by the Inspector General on the Department's ability to meet the Rule

commitment has spurred management to act on findings to ensure feedback drives improvement.

PROPOSED CLOSURE DATE

This significant issue will be reviewed for potential closure based on the successful implementation of Integrated Safety Management at all sites and the completion of safety basis updates at sites with nuclear materials required by the Nuclear Safety Rule.

PROJECT MANAGEMENT

RESPONSIBLE PROGRAM MANAGER

Bruce M. Carnes
Director, Office of Management, Budget
and Evaluation/Chief Financial Officer

Jessie Roberson
Assistant Secretary
Environmental Management

Linton F. Brooks
Acting Administrator
National Nuclear Security Administration

Raymond L. Orbach
Director, Office of Science

DESCRIPTION OF PROBLEM

In the past, it was reported that the Department lacked discipline and structure in approving and controlling program and baseline changes to projects and needed a Department-wide approach to certify project managers at predetermined skill levels to ensure competent management oversight of resources. Additionally, it was determined that the Department needed stronger policies and controls to ensure that the need for construction projects is reevaluated frequently in light of changing missions. While the Department has taken actions to address these past problems, confidence in the ability to build new facilities, remediate contaminated sites and upgrade existing systems has been adversely impacted by reported cost overruns, schedule slippages, unplanned mid-course redirection and other project management problems. The National Ignition Facility (NIF) project had encountered major cost overruns and schedule delays due to oversight failures, the In-Tank Precipitation Process project was suspended due to its inability to work safely and efficiently as designed, and the Office of River Protection project was terminated due to concerns about the contractor's performance and rapidly escalating cost estimates. These issues have led to Congressional concern over the adequacy of the Department's engineering and construction project management structure and practices.

PRIOR YEAR ACCOMPLISHMENTS

To identify the root causes of these project management deficiencies, Department-wide policies and procedures have been assessed by an expert panel formed under the National Research Council (NRC) of the National Academy of Sciences. The Department is addressing these problems through a comprehensive plan to implement the NRC's recommendations, as well as corrective actions gleaned from other internal and external reviews. Of the 19 recommendations made by the NRC, 14 are complete and five are resolved with action proceeding according to an approved action plan. The NRC issued a report in November 2001, "Progress In Improving Project Management at the Department of Energy," commending the Department for taking positive steps towards improving project management and recognized that more time will be needed to achieve the intended goals.

Spearheading this continuing effort is the Office of Engineering and Construction Management, within the newly formed Office of Management, Budget and Evaluation/Chief Financial Officer. This office has taken the mission to drive value added change in the Department's project management systems. The OECM implemented an External Independent Review procedure that focuses on the review and validation of the project's cost, schedule and technical scope and continues to improve upon the procedure. The Project Assessment and Reporting System was developed to collect project data and report on project performance and status. The Project Assessment and Reporting System became operational in FY 2002. The Project Management Career Development Program task force developed a draft Career Path for project managers that it is now finalizing.

The Office of Management, Budget and Evaluation began to independently review and validate the documentation justifying mission need for each project and providing an assessment to the approving official. The Under Secretaries approve the Acquisition plans for projects under \$400 million to \$20 million and the Assistant Secretaries/Program Secretarial Officers approve Acquisition Plans for projects under \$20 million to \$5 million without further delegation. These policies are designed to improve project management performance.

	Projected Completion Date			
PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Conduct a benchmark study of DOE projects to determine critical factors that contribute to a projects success. Once identified, these factors can be used to improve the probability of project success.	12/02	12/02	ME	Jim Rispoli
Submit quarterly reporting for the Deputy Secretary's Project Management Special Interest Projects.	Ongoing	Ongoing	NNSA	Linton Brooks
			EM	Jessie Roberson
			SC	Raymond Orbach

Implement a Project Manager Career Development Program:				
a. Draft Career Development Plan	12/01	Complete	ME	Jim Rispoli
b. Begin Implementation	12/03	12/03	ME	Jim Rispoli
Establish a Department wide Value Engineering program; this will identify opportunities for cost savings in project management.	12/02	12/02	ME	Jim Rispoli
Develop a process to establish contingency levels for each project based on acceptable risk, degree of uncertainty, and desired confidence levels for meeting the baselines. This process focuses on developing risk adjusted cost estimates that take us from preliminary cost ranges to a risk adjusted cost estimate.	12/02	12/02	ME	Jim Rispoli
Analyze and monitor Project Management activities through External Independent Reviews.	12/03	12/03	ME	Jim Rispoli
Results/outcome measurements of line organization accomplishments can result in closure.	12/04	12/04	ME	Jim Rispoli
Issue NNSA Policy Letter on Project Management that it is NNSA Policy to: complete final design before awarding construction contracts; ensure project managers achieve balance between cost control and mission essential requirements; keep risk assessments and cost estimates updated; and implement a comprehensive approach to independent cost estimating.	N/A	4/03	NNSA	Linton Brooks
Issue NNSA Policy Letter to implement Value Engineering practices/procedures within NNSA.	N/A	4/03	NNSA	Linton Brooks

* NNSA has not yet provided target dates for completion of Inspector General recommendations

to review and amend NNSA policies and procedures regarding project management shortcomings (Report IG-0560/June 2002).

PROGRESS STATUS

The Office of Engineering and Construction Management has completed significant actions towards mitigation of the Department's project management deficiencies. This office initiated a benchmark study in May 2001. Large-scale Department projects are being reviewed and analyzed to determine factors that significantly contribute to project success and/or failure. The intent is that future projects will address success factors in their planning and execution thereby increasing the probability of success.

A process to identify "special interest projects" requiring the attention of the Department's Deputy Secretary has been developed and fully implemented. Quarterly reports are being submitted on Special Interest projects, which include former Watch List projects.

The Project Manager Career Development Program task force successfully developed the Draft Career Development Plan and is currently developing a comprehensive career program to include tracking, training curriculum, developmental assignments, certifications, advancements and incentives. Implementation is on schedule to begin in 2003.

Progress on establishing a Department-wide Value Engineering program has been significant. The Office of Engineering and Construction Management entered into an agreement with the National Engineering Technology Laboratory to develop the Value Engineering program. This effort has resulted in changes to the draft Project and Program Management Manual to strengthen Value Engineering in the Department, projected updates to the DOE Order, *Life Cycle Asset Management*, formation of coordinated Federal Value Engineering Managers working group and coordination of Acquisition Letter: Value Engineering in Site/Facility Management Contracts by the Office of Procurement and Assistance Policy. All of these efforts are major contributing factors into the Department's Value Engineering program.

A process to establish contingency by developing risk adjusted cost estimates is included in the update to the Project and Program Management Practices Guide currently being planned for review in the Department's directives system. This guide is on schedule for release in 2002.

External Independent Review process and procedures are currently being reviewed and updated. Emphasis is being placed on monitoring corrective actions, trending findings to improve project management and to identify programmatic improvements.

Value Engineering Program has been implemented within the NNSA and is an integral element of NNSA's Program Requirements Manual for Project Management. The issuance of the NNSA Policy Letter will codify the Value Engineering Program within NNSA.

PROPOSED CLOSURE DATE - December 31, 2004

Project Management will be resolved upon OMBE's completion of its activity providing directives and oversight tools to the line organizations. OMBE will complete its initial implementation mode in FY 2003. Results/outcome measurement in FY 2004 of line organization accomplishments can result in closure of this item.

PROGRAM OVERSIGHT OF CONTRACTORS

RESPONSIBLE PROGRAM MANAGERS

Linton Brooks
Acting Administrator
National Nuclear Security Administration

Raymond L. Orbach
Director
Office of Science

Jessie Roberson
Assistant Secretary
Environmental Management

DESCRIPTION OF PROBLEM

The majority of the Department's programs are accomplished through contracts, particularly those that provide management and operating capabilities for running the Department's facilities. The Department has previously been criticized for not effectively managing these contracts due to the absence of competition in contracting for major facility management contracts, the general indemnification of contractors for the cost of all performance failures and liabilities under a contract, the lack of contractual features to ensure contractor performance accountability, the absence of a strong focus on environmental, safety, and health concerns, and weak controls over such areas as records management, overtime, and litigation. The Department has established the appropriate policies and procedures to address these problems, however, programmatic implementation of these policies and procedures is not consistently occurring throughout the Department to provide sufficient oversight of contractors. Specific contractor oversight problems have been identified by the Inspector General at the Department's environmental cleanup sites and laboratories conducting national security and scientific activities.

PRIOR YEAR ACCOMPLISHMENTS

Not applicable as this is a new action plan.

PLANNED CRITICAL MILESTONES

Projected Completion Date

PLANNED CRITICAL MILESTONES

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Through a process of re-engineering, NNSA is restructuring its Federal workforce to provide efficient, effective oversight of the contractor workforce. Additionally, NNSA is evaluating a different method that is more in line with industry standards.	N/A	12/04	NNSA	Linton Brooks
Incorporate cost-sharing contracting options into future contracting activities to ensure the Department conducts the most effective clean up of its sites.	N/A	9/03	EM	Jessie Roberson
Restructure Federal workforce to provide clear line management accountability that will result in more efficient and effective oversight of our laboratories.	N/A	12/04	SC	Raymond Orbach

PROGRESS STATUS

Environmental Management: Increased contractor oversight and contracting strategy is an integral part of the Office of Environmental Management's (EM) implementation strategy resulting from the "Top-to-Bottom" Review. Specifically EM has implemented a Contract Management Council to ensure aggressive and consistent contracting strategies are implemented. Part of the strategy is ensuring that performance based incentives are included in contracts so as to align with the objectives of the Accelerated Cleanup plans and to review all acquisitions strategies to ensure optimal support of the Accelerated Cleanup. These activities are expected to be iterative in nature.

Science: The Department has undertaken a new contract approach for its laboratories that will rely more on national standards, best practices, and validation of management systems to produce further improvements in efficiency and effectiveness of laboratory operations.

PERFORMANCE MANAGEMENT

RESPONSIBLE PROGRAM MANAGER

Bruce M. Carnes
Director, Office of Management, Budget
and Evaluation/Chief Financial Officer

DESCRIPTION OF PROBLEM

The Department's goals and performance measures in the Strategic Plan, the Annual Performance Plan, and the Budget are not well integrated and do not adequately represent the outcomes and benefits that the Department's activities produce. The goals are not written in quantifiable and measurable terms with clear outcomes and/or outputs; as such, these goals do not provide a basis to measure progress or ensure management accountability for results.

PRIOR YEAR ACCOMPLISHMENTS

To address the deficiencies in its performance management, the Department established the Office of Program Analysis and Evaluation (PA&E) within the Office of Management Budget and Evaluation in November 2001. PA&E has been fully staffed and now provides corporate leadership over Departmental performance measurement efforts.

PA&E is ahead of schedule in meeting critical milestones established to correct this issue. Most notably, in FY 2002 the Department has: Issued a new Departmental performance measurement policy to provide consistent application of sound performance measurement principles; Established a formal training program to facilitate the development and reporting of clear and quantifiable performance goals and measures in conjunction with the budget process; Implemented new performance tracking software to improve reporting and analysis capabilities and facilitate more useful information for decision making; and, Integrated performance plans with FY 2003 and FY 2004 budgets and utilized performance information to support budget decision-making. In addition, the Department submitted its initial FY 2004 Annual Performance Plan to OMB with improved performance targets linked to the Department's budget submission.

PLANNED CRITICAL MILESTONES	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
OMB review of FY 2004 performance goals and measures, and feedback to DOE on needed changes.	11/02	11/02	OMBE	Bruce Carnes

	Projected Completion Date			
PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Ensure that the FY 2002 performance results in the Department's FY 2002 Performance and Accountability Report are written in clear, plain language and that they describe how these results support superceding objectives; how the assessments of goals are consistent with the results described; and, provides an explanation for any shortfalls in performance, supported by a plan of action.	11/02	11/02	OMBE	Bruce Carnes
Publish the Department's final FY 2004 Annual Performance Plan with significantly improved performance goals and measures.	2/03	2/03	OMBE	Bruce Carnes
Evaluate progress, review the IG's and auditor's feedback, and develop a plan of action and milestones for 2003 to further improve policies and procedures for development and reporting of Departmental performance measures.	2/03	2/03	OMBE	Bruce Carnes

PROGRESS STATUS

In addition to completing critical corrective actions, PA&E has taken a proactive leadership role in communicating to the program offices an urgent sense of purpose for improving the quality of performance measures to support the President's Management Agenda Initiative on Budget and Performance Integration. Feedback from OMB on the Department's FY 2004 goals and measures will provide a key indicator of success in meeting expectations in this area.

While we have taken significant actions to improve performance measures in the Department, we will continue to closely track this as a significant issue over the next year and continue to pursue improvements to the Department's performance measures.

PROPOSED CLOSURE DATE

December 2004, with the publication of the FY 2003 Performance and Accountability Report.

NUCLEAR WASTE DISPOSAL

RESPONSIBLE PROGRAM MANAGER

Dr. Margaret S.Y. Chu
Director, Office of Civilian Radioactive Waste Management

DESCRIPTION OF PROBLEM

In the past, the Department reported that its schedule for acceptance of spent nuclear fuel and defense-related high-level radioactive waste had experienced delays resulting from funding shortfalls, past litigation, and scientific studies of a scope not envisioned when the Nuclear Waste Policy Act was initially passed in 1982 and amended in 1987. These delays were encountered at the Yucca Mountain site where the Department was performing comprehensive scientific tests to determine the suitability of the site for construction of a repository for the disposal of spent nuclear fuel and high-level radioactive waste.

The characterization of the Yucca Mountain site has since been completed. On February 14, 2002, the Secretary of Energy recommended the site to the President for development of a nuclear waste repository. On February 15, 2002, the President recommended the site to the Congress. On May 8 and July 9, 2002, the House of Representatives and the Senate, respectively, passed a resolution approving the siting of the repository. Finally, on July 23, 2002, the President signed into law the Congressional Joint Resolution designating Yucca Mountain as the site for the Nation's first repository. At that point, implementation of the Program entered a new phase.

The Nuclear Waste Policy Act of 1982 created the Nuclear Waste Fund in the Department of Treasury and established a fee on nuclear power generation to be paid into it by owners and generators of spent nuclear fuel and high-level radioactive waste, to cover the cost of the Civilian Radioactive Waste Management Program. In the intervening years, several budget control measures have been enacted by the Congress that have had the effect of preventing the Nuclear Waste Fund from being available to OCRWM for its intended purpose. As a result, OCRWM's has experienced a cumulative funding shortfall of \$578 million for the seven year period of 1995 to 2002. This funding shortfall has been a major factor in the need for the Department to now reschedule Program milestones. OCRWM's replanning effort will result in a revised cost and schedule baseline, early in FY 2003.

Implementing the repository licensing and construction phases and taking the necessary steps to develop a national transportation capability, will require substantial increases in

funding if waste acceptance at Yucca Mountain is to begin, as scheduled, in 2010. However, such funding is not likely to be provided through the existing budget process and the success of the Program is dependent on the establishment of a mechanism to assure the necessary funding is available.

PRIOR YEAR ACCOMPLISHMENTS

The FY 2001 Energy and Water Development Appropriations Act directed OCRWM to update its 1984 report on Alternative Means of Financing and Managing the Program. The updated report, which identified a number of near- and long-term options for ensuring that sufficient funding is available for the Program, was submitted to the Congress in August 2001. As part of the FY 2003 passback, the Office of Management and Budget directed the Department to submit a draft Capital Asset Plan outlining OCRWM's proposed funding profiles through the construction phase of the Program and a proposed funding strategy, consistent with the concepts described in the Alternative Means of Financing and Managing the Program report. Program officials have participated in discussions with OMB on the findings of the updated report on Alternative Means of Financing and Managing the Program and the draft Capital Asset Plan, which was submitted to OMB in early September 2002. The latter includes a funding strategy designed to ensure that useful segments of that plan are fully funded. Also, in its FY 2003 Budget Request, OCRWM identified the need to gain greater access to the Nuclear Waste Fund as a priority.

The FY 2004 Passback provided further direction to the Department regarding the Capital Asset Plan and included a new timetable for its completion. OMB directed DOE to revise the draft Plan over the coming year. OCRWM is to provide OMB, by February 28, 2003, a detailed plan for updating the draft Capital Asset Plan, a redraft by June 30, 2003, and a final Plan with the Department's FY 2005 Budget Request.

Congress is expected to approve OCRWM's funding proposal in the FY 2005 Congressional Budget resolution expected in March 2004. With a new baseline in place and a mechanism to ensure access to the necessary funding, this action plan should be closed in FY 2004 and OCRWM should be able to achieve its mandated mission.

Projected Completion Date

**PLANNED CRITICAL
MILESTONES**

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Submit Final Capital Asset Plan to OMB	09/02	6/03	RW	Margaret S.Y. Chu
Issue Revised Program Cost and Schedule Baseline	12/02	01/03	RW	Margaret S.Y. Chu
Submit the Funding Proposal to Congress as part of DOE's FY 2005 Budget	N/A	8/03	RW	Margaret S.Y. Chu

PROGRESS STATUS

Work is progressing on the redrafting of the Capital Asset Plan, which will include a funding strategy designed to ensure that useful segments of that plan are fully funded.

PROPOSED CLOSURE DATE - 2004

Congress is expected to approve OCRWM's funding proposal in the FY 2005 Congressional Budget resolution anticipated in March 2004. With a new baseline in place and a mechanism to ensure access to the necessary funding, this challenge should be resolved in the first half of FY 2004 and OCRWM should be able to achieve its mandated mission.

INFORMATION TECHNOLOGY MANAGEMENT

RESPONSIBLE PROGRAM MANAGER

Karen S. Evans
Chief Information Officer

DESCRIPTION OF PROBLEM

The Department has experienced problems in fully implementing the Clinger-Cohen Act of 1996 and in meeting the requirements of Office of Management and Budget Circular A-130. In summary, these requirements establish Federal Agency Chief Information Officers (CIOs) with a broad set of responsibilities for maximizing mission accomplishment through improved and more cost-effective use of information technology. Significant barriers to implementing these responsibilities include a decentralized approach to information technology management, the limited control and influence by the CIO in the program budgeting process and the lack of an information technology baseline. Without a technology baseline, IT managers do not have enough information to make sound IT investment decisions, and due to the decentralized IT management and limited influence of the CIO in program decision-making, the CIO cannot guide the acquisition and management of IT resources in the Department.

Audit reports indicate that the Department does not yet have an effective investment strategy and management tools for corporate information technology activities. Examples of problems identified in audits include continued effort in certain areas of the Department on developing duplicative information systems, lack of an enterprise architecture, limited success in leveraging enterprise-wide software contracts with significant savings potential, and lack of a comprehensive framework for acquiring information technology related assets and support services in a cost effective manner. When the Department establishes an Enterprise Architecture, it will describe the necessary technology baseline and define the context for future IT acquisitions. This document, in conjunction with the other elements identified above would enable the Department to fully implement Clinger-Cohen requirements.

PRIOR YEAR ACCOMPLISHMENTS

To address these problems the Department made changes to the management structure to make the Office of the Chief Information Officer a direct report to the Secretary and the primary official for Department-wide information management issues. The establishment of an enterprise-wide license for Microsoft software will save millions of dollars that would have been spent on multiple, small contracts for site or program specific licenses. The Department deployed the Information Technology Investment Portfolio System (ITIPS) to the Headquarters program level to provide automated support for the IT capital planning process and establish an electronic method for managing the DOE IT portfolio. In March 2002, the Department launched the Innovative Department of Energy e-government

Applications Task Force to identify high priority DOE e-government investments. The Department also developed an IRM Strategic Plan that includes specific goals, objectives, strategies and performance measures targeted at the reform of IT management processes associated with the Clinger-Cohen Act including the reduction duplicative IT system investments. In addition, the Department developed a high level Enterprise Architecture with an information technology baseline to guide IT investment decision-making and submitted it to the Office of Management and Budget in September 2002 along with the IRM Strategic Plan and other reporting associated with the FY 2004 Budget Request.

In support of the President's Management Agenda goal of expanding electronic government, the Department completed the E-Government Strategic Action Plan. This action plan identifies high priority E-Government investments for the Department. This document was digitally signed by the Secretary and presented to the Director of the Office of Management and Budget (OMB) in October 2002 along with a government-wide license to use this digital signature technology, developed by the Department's cyber security program. The Department has developed a plan for more DOE-wide Enterprise License Agreements beginning with initial discussions this fiscal year and funding any agreements with FY'04 funds if not sooner. The Extended Common Integrated Technology Environment initiative was launched to consolidate all aspects of common IT systems throughout DOE as a way to improve services, increase IT purchasing power, and reduce overall IT expenditures.

Projected Completion Date

**PLANNED CRITICAL
MILESTONES**

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Develop a DOE Order that will establish explicit requirements for information technology management within the Department.	12/2002	12/2003	CIO	John Przysucha
Develop an acquisition framework Department-wide for corporate systems and procedures for acquiring information technology related assets and support services.	12/2002	12/2003	CIO	John Przysucha

Fully Document the Enterprise Architecture to identify IT inventory by increasing the level of detail and including mandatory standards.	N/A	12/2003	CIO	John Przysucha
Fully implement the IT capital planning process.	12/2002	12/2003	CIO	John Przysucha

PROGRESS STATUS

The Department has made significant progress during this past year to strengthen management of information technology resources. The E-Government strategic plan, the IRM Strategic Plan, and the Enterprise Architecture Document provided guidance to all organizations to stop work on duplicative local systems. The Draft DOE Order to establish requirements for information technology management throughout the Department was developed and is to be issued by the end of FY 2003. The implementation of ITIPS serves as the first step to the development of an IT baseline and inventory of systems. The systems, projects, and initiatives identified in ITIPS combined with the DOE Enterprise Architecture document the DOE IT inventory

PROPOSED CLOSURE DATE

This Departmental Challenge will be closed out by the end of calendar year 2003. By that time the Enterprise Architecture will be fully documented, the E-Government and IRM Strategic Plans will be matured and in use, the IT capital planning process will be fully implemented Department-wide, the DOE Order should be in place, and additional DOE-wide Enterprise License Agreements will have been developed.

HUMAN CAPITAL MANAGEMENT

RESPONSIBLE PROGRAM MANAGERS

Bruce M. Carnes
Director, Office of Management, Budget
and Evaluation/Chief Financial Officer

Gregory H. Friedman
Inspector General

DESCRIPTION OF PROBLEM

The Department of Energy is highly dependent on its Federal workforce for its mission accomplishment. Since 1995, the Department has experienced a 27 percent reduction in the workforce. Combined with other factors such as lengthy moratoria on hiring, the relative age of the workforce and a variety of incentives to leave Federal service, the decline in staffing has left the Department with a significant challenge: reinvesting in its human capital to ensure that the right skills, necessary to successfully meet its missions, are available. In this regard, the Office of Inspector General has reported that staffing constraints have limited its ability to provide adequate audit coverage of the Department's major contractors. In FY 1999, the Department reported a Departmental Challenge of Mission Critical Staffing that was primarily a funding issue for several program offices with many having to absorb staffing cuts in the field. There were also secondary issues related to skill-mix, workforce alignment, and personnel action processing. By FY 2000, up to 30 percent of the Department's critical workforce was eligible for retirement within the next five years. This situation caused a focus on Headquarters recruiting and hiring practices and processes. FY 2000 also brought with it the challenge to implement the National Nuclear Security Agency and to re-think the alignment, missions, and critical skills needs of the Department. The Administration has recognized human capital management as a major problem governmentwide and has included it as one of the five key initiatives of President's Management Reform Agenda.

PRIOR YEAR ACCOMPLISHMENTS

The Department's workforce challenges over the past years have been met with focused initiatives, some of the largest include the Strategic Alignment Initiative from 1995-2000 and the Workforce for the 21st Century Initiative in FY 1999. The current situation will worsen over the next five years absent a coordinated effort to revitalize the workforce. The magnitude of these issues has caused us to broaden our characterization of this Departmental Challenge to the larger arena of human capital management. The Departmental challenge and for FY 2002 will be to utilize the best of the efforts over the past years, and develop a comprehensive and integrated human capital management strategy for the Department. This strategy began with development of a Workforce Analysis to serve as a baseline of workforce demographics for future change. During a Human Capital Summit, key leadership of the Department identified several areas of concern and possible solutions. After the Deputy Secretary announced several short-term initiatives, the Department implemented a new SES Performance Management System; developed a guidebook on recruiting, retaining, and developing a highly skilled workforce; expanded the use of automated human resources systems; developed and improved leadership and Corporate intern programs; and guided major DOE offices in developing Business Visions and workforce strategies. In September 2001, the Department submitted a 5 Year Workforce Restructuring Plan with the FY 2003 budget submission to the Office of Management

and Budget. This Plan serves as the blueprint for future improvements in Human Capital Management. The Office of Inspector General has requested additional funding in the FY 2004 to address increasing requirements.

PLANNED CRITICAL MILESTONES	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
Meet with major DOE organizations to guide them in preparing Business Visions and associated workforce strategies and plans that will move their organizations from where they are today to what they need to become in order to better accomplish their missions. *DOE major organizations complete strategies and plans and forward to ME-1	11/02	9/03	All	Secretarial Officers
Develop and implement a workforce planning program, including succession planning *Implement a workforce planning methodology that identifies critical skills through FY 2007 *Extend application of workforce planning methodology to other key occupational groups *Develop cross-cutting succession planning processes for mission critical occupation	9/03 9/04 9/03	9/03 9/04 9/03	ME ME ME	Claudia Cross Claudia Cross Claudia Cross
Expand the availability and use of statutory and regulatory Flexibilities with a special emphasis on resolving problems caused by lack of entry and mid-level hiring *Integrate expanded use of incentives and Flexibilities with budget and performance plans *Implement improvements in DOE human resources policies and practices and seek statutory improvements	9/03 9/02	9/03 9/03	ME ME	Claudia Cross Claudia Cross

Utilize new performance appraisal programs that provide greater focus on achieving desired outcomes *Cascade down a new Performance Management System based on the SES model (implemented in FY 2002) for all DOE GS-15 and below managers and supervisors	9/03	9/03	ME	Claudia Cross
Measure progress toward improved human capital management *Establish performance measures that can be used in FY 2003-2007 to assess effectiveness of above actions and overall progress achieved in improving human capital management. *Assess effectiveness of above actions	9/03-07	9/03-07	ME	Claudia Cross
Request additional funding in the FY 2005 budget to address increasing requirements.	6/02	6/03	IG	William Maharay
Issue revised guidance on the Cooperative Audit Strategy	9/03	9/03	IG	William Maharay
Further improve the OIG's risk-based planning process by integrating planned audits to align with critical audit areas.	8/02	9/03	IG	William Maharay
Update a consolidated analysis of internal audit staffing levels and needs.	9/03	9/03	IG	William Maharay
Increase audit staffing to the level needed to meet audit requirements based on an updated staffing study.	TBD	TBD	IG	William Maharay

PROGRESS STATUS

Human capital management is an area of government-wide focus as increasing emphasis is being placed on performance and accountability at both the Departmental and individual employee level. This increasing emphasis is occurring at a time when the Department is facing an aging workforce and shortage of skilled staff. However, top-level attention is being given to this situation and is being addressed through comprehensive workforce analysis and planning efforts described above. Specific progress includes: issued an

updated DOE Five-Year Workforce Restructuring Plan in January 2002; implemented an SES Performance Management System; implemented an automated hiring system (QuickHire) and Web-based learning technology (On-Line Learning Center); increased entry-level hiring (24.4 percent of all new FY 2002 hires was at entry-level vs. target of 15 percent); established a new Career Intern Program; launched the first DOE SES Candidate Development Program since 1993; and initiated several major DOE organizations (including the National Nuclear Security Administration, Environmental Management, Science, and Energy Efficiency) activities to restructure, streamline, de-layer, and improve operations in their Headquarters and Field components. In addition, The Office of Management, Budget and Evaluation initiated meetings with major DOE organizations to guide them in developing Business Visions and associated workforce strategies.

Specific plans are under development by DOE organizations that will address skills gaps in critical occupational areas such as project and contract management, nuclear safety, and security. Plans have been developed by NNSA, EM, SC, and EE, and others will be developed during FY 2003, as appropriate (November 2002 milestone partially met; other organizations have revised target of September 2003). All of these efforts are in full support of the President's Management Agenda (PMA) to focus on improved human capital management.

The DOE Management Council, comprised of DOE Secretarial Officers, continues to meet monthly to focus on achievement of the PMA.

The actions and accomplishments to improve human capital management are starting to pay off. The Office of Management and Budget (OMB) has provided DOE with its most recent Scorecard (September 2002). The score was in two parts – progress to date and an overall score. DOE received a Green score in human capital management on progress and a Yellow score on overall status. DOE was only one of two Cabinet Agencies to move up to Yellow on overall status in human capital.

The Office of Inspector General (OIG), the Office of Audit Services has hired 21 auditors to bring the office to a staffing level of 152. However, this is significantly lower than the staffing level 10 years ago, which was 210. In addition, history shows that the OIG will lose approximately 10 percent of its staff each year. Therefore, the OIG still has a vulnerability of inadequate audit coverage even with the additional hiring. The FY 2004 budget includes an amount to increase the audit staffing within the OIG during the fiscal year.

The Office of Audit Services reorganized effective May 2002. This reorganization was along program lines and will help focus audit groups more on the respective programs. Further, risk assessments are being done by Program as well as sites and coordinated between Divisions. This should provide a better overall picture of the audit universe and where the audit needs are.

PROPOSED CLOSURE DATE

The Department plans to complete almost all of the actions by the end of FY 2004 at which time Human Capital Management could be deleted from the Departmental Challenge list. DOE would continue to implement the remaining out year actions to ensure the Department continues to improve its human capital management initiatives.

FACILITIES AND INFRASTRUCTURE MANAGEMENT

RESPONSIBLE PROGRAM MANAGERS

Linton Brooks
Acting Administrator
National Nuclear Security Administration

Raymond L. Orbach
Director
Office of Science

Bruce M. Carnes
Director, Office of Management,
Budget and Evaluation/CFO

DESCRIPTION OF PROBLEM

The Department risks not being able to meet some of its existing mission objectives if the condition and functionality of its facilities are not adequately addressed. Aging facilities are operating beyond design life and have deteriorated due to insufficient maintenance. The condition of the Department's facilities is impacting the defense production mission and the performance of world-class science. In addition, poor infrastructure conditions are resulting in increased safety and health risks and negatively influencing the Department's ability to retain its highly skilled scientific and technical workforce. It is critical that the Department address facilities and infrastructure repair, replacement, upgrade, and long-term management in order to mitigate the deteriorating conditions of the Department's facilities.

PRIOR YEAR ACCOMPLISHMENTS

In recognition of this situation, the National Nuclear Security Administration (NNSA) and the Office of Science (SC) undertaken efforts to evaluate the condition of the infrastructure at their sites, define needs to meet mission requirements, and develop comprehensive plans for each of their facilities. During FY 2001, Ten-Year Comprehensive Site Plans were submitted by each site comprising the nuclear weapons complex. During FY 2002 the Ten-Year Site Plans were integrated into a five-year budget planning cycle reflecting the needs of the defense complex. In addition, designation of a focal point in FY 2001 to integrate weapon systems and production activities with defense infrastructure capabilities occurred with the creation of the National Nuclear Security Administration's Office of Associate Administrator for Facilities and Operations.

SC began an Infrastructure Modernization Initiative during FY 2001 to better define modernization needs to clarify management responsibilities, improve planning and coordination, provide appropriate capital investment and maintenance funding, and improve facilities management practices and processes in the Field and at the laboratories. In October 2000, each laboratory prepared a Strategic Facilities Plan to identify expected general-purpose infrastructure modernization needs for the period of FY 2002-2011. A summary

**DOE Management Control Program
January 31, 2003**

Attachment C-3

report based on these plans was completed and issued in April 2001. This report indicated a sizeable, \$1.25 billion, backlog of unfunded capital needs for support infrastructure. SC has prepared an infrastructure budget initiative for FY 2004. It covers all SC facilities and excess facilities and includes a substantial increase to aggressively address the general-purpose infrastructure needs identified in the summary report. The five year program plan for addressing infrastructure modernization needs has been posted on the Office of Science's website. Finally, the Department designated a focal point within the Office of Science to integrate mission activities with infrastructure capabilities.

A Department of Energy Policy P580.1, approved on May 20, 2002, was issued to ensure the proper stewardship of the Department's real property. Real property is defined as land, buildings (and related personal property), other structures and facilities, and trailers that are used in accomplishment of our mission. To implement this policy the Office of Management, Budget and Evaluation established a working group to develop a replacement Departmental directive for facilities and infrastructure management. This directive will establish a holistic planning, programming, budgeting and execution process that links real property assets, and the resources dedicated to them, to mission requirements and performance.

PLANNED CRITICAL MILESTONES	Projected Completion Date			
	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Publish Departmental Directive on Facilities and Infrastructure Management	N/A	06/03	OMBE	Bruce Carnes
Complete second phase of Defense Facility assessment.	2001	9/03	NNSA	Linton Brooks
Update SC 5 year program plan for managing physical assets	N/A	Annually	SC	Raymond Orbach

PROGRESS STATUS

Infrastructure requirements of the Department's defense facilities will continue to be addressed in FY 2003. Phase II of the Defense Facility assessment is in progress. As a result of the assessment, the Department will finalize development of the Facilities Management Process Plan for addressing defense infrastructure modernization needs. The plan will provide the basis for a viable planning process and provide tools and business practices to support the process for improving the deteriorating complex and supporting the Stockpile Stewardship Program. Completion of 10-year Site Plans for all production facilities and a 5-year budget planning cycle that integrates the 10-Year Site Plan requirements will also be completed during FY 2002. Completion dates for critical milestones slipped to 2002 as a result of the implementation of the National Nuclear Security Administration's reorganization.

Due to a level FY 2004 budget for SC, the President's request to Congress will not show any increase in infrastructure funding levels for SC labs over FY 2003 levels. SC will annually update plans for managing physical assets and use the results in the semiannual Facilities and Infrastructure Report to Congress. SC continues to strongly support the initiative to populate and validate key Facilities Information Management System (FIMS) data. Accurate FIMS data is essential to improved facilities management.

The newly issued Department of Energy Policy was designed to ensure proper stewardship of the Department's real property. Stewardship means active, value-based, and informed management processes that ensure the existence of adequate real property assets fully capable of meeting mission, safety and performance requirements. Furthermore, the policy tasks federal managers to be responsible for this stewardship through proper planning, programming, budgeting, operation, maintenance and disposal practices. The policy also includes proper disposition of the Department's excess facilities.

PROPOSED CLOSURE DATE:

2003 with completion of planned actions

STOCKPILE SURVEILLANCE AND TESTING

RESPONSIBLE PROGRAM MANAGERS

Linton F. Brooks
Acting Administrator
National Nuclear Security Administration

DESCRIPTION OF PROBLEM

Since the moratorium on underground testing of nuclear weapons, the Department's responsibility to ensure the safety, security, and reliability of the nuclear weapons stockpile has been met through its Stockpile Stewardship Program. Successful implementation of the Stockpile Stewardship Program is key to the Secretary of Energy's annual certification to the President that the nuclear stockpile is safe and reliable. Deficiencies have been identified in surveillance tests of stockpiled nuclear weapons, a key component of the Stockpile Stewardship Program. Surveillance testing has been characterized as the first line of defense for maintaining high confidence in the stockpile and the link between stewardship activities and the annual certification process. Each year the Department randomly selects 100 weapons to conduct surveillance tests, however, since 1996, the Department has not met many of its milestones for surveillance tests. This has resulted in a significant testing backlog that is projected to last for several years. The backlog in surveillance testing puts the Department at risk for not having critical information on the reliability of the weapons. In addition, defects within the weapon systems can go undetected since the likelihood of detecting defects decreases when fewer tests are conducted.

Deficiencies have also been identified in conducting Significant Finding Investigations to determine the cause and impact of problems identified by surveillance tests, and to recommend corrective actions. The Department has not been meeting internally established timeframes for initiating and conducting investigations of defects and malfunctions in nuclear weapons. As a result of investigation delays, test data and findings related to weapon reliability were not readily available to the Departments of Energy and Defense. If these delays continue, the Department may not be able to certify the aging nuclear weapons stockpile.

PRIOR YEAR ACCOMPLISHMENTS*

During FY 2002, NNSA implemented a management plan to address and eliminate the testing backlog. NNSA also renewed safety studies of weapons prior to surveillance testing. In FY 2001, NNSA began development of a database to track significant finding investigations.

PLANNED CRITICAL MILESTONES	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
Conduct surveillance tests to eliminate testing backlog.	N/A	9/04	NNSA	Linton Brooks
Develop and implement a comprehensive significant finding investigation database.	N/A/	9/02*	NNSA	Linton Brooks

PROGRESS STATUS

As the stockpile continues to age, a stringent surveillance program becomes increasingly important. During FY 2003, the Department will continue to eliminate the surveillance testing backlog. It is anticipated that the backlog will be eliminated by FY 2004.

PROPOSED CLOSURE DATE:

2004 with completion of planned milestones

* While NNSA acknowledged in their FY 2002 Assurance Memo that Stockpile Surveillance and Testing remains a challenge, it did not provide information of the status of corrective actions. An attempt to update this action plan was made based on information obtained from other sources. However, input from NNSA is required to determine the status of the milestone, "Develop and implement a comprehensive significant finding investigation database".

FY 2003 MANAGEMENT REPRESENTATION LETTER GUIDANCE

(Field Organizations)

The Government Reform Act of 1994 requires the Department to prepare and have audited Department-wide financial statements. In compliance with this Act, the Department will submit financial statements to KPMG through the Inspector General for audit. A critical step in the audit is to obtain a management representation letter from the Department's senior managers. The Department's management representation letter package will consist of a detailed representation letter prepared and signed by the Department's Chief Operating Officer and the Chief Financial Officer.

To support the Department's process, Heads of Field Elements will prepare a Field Office management representation letter and submit it to the Lead program Secretarial Officer and Department's Chief Financial Officer. At the same time, a copy will also be officially transmitted to the Cognizant Secretarial Officer(s). In the management representation letter, individual Field Elements will provide assurances that all known liabilities have been disclosed and assets are fairly valued. The assertions will be based upon managerial knowledge of the respective financial information.

Field management representation letters are due to the Lead Program Secretarial Officer and Chief Financial Officer by October 28, 2003. These letters and separate attestations provided by Heads of Headquarters Elements will serve to support the final management representation letter package submitted to KPMG through the Inspector General. Attachment D-1 contains guidance and a format for completing the management representation letter.

If you have any questions on the representation letter process, call the Office of Program Liaison and Financial Analysis on 301-903-2551.

INSTRUCTIONS FOR PREPARING MANAGEMENT REPRESENTATION LETTERS

1. Heads of Field Elements should submit a management representation letter addressed to the Lead Program Secretarial Officer and the Department's Chief Financial Officer by October 28, 2003. The letter to the Chief Financial Officer should be forwarded to the Chief Financial Officer Attention: Office of Program Liaison and Financial Analysis, ME-100, GTN, Rm C-176. A copy should be simultaneously provided to the Cognizant Secretarial Officer(s).
2. Field Element management representation letters and separate attestations provided by Heads of Headquarters Elements will serve to support the Department's management representation letter package submitted to KPMG through the Inspector General. The representation letter is an integral part of the financial statement audit. The attached sample letter is to be used by the Field in preparing their letters and represents the types of representations that may be made by the Chief Operating Officer and the Chief Financial Officer to KPMG through the Inspector General. The letter assists KPMG in forming an opinion whether the Department's financial statements are presented fairly, in all material respects, in conformity with Federal accounting standards.
3. Field Element assertions will, to a large extent be based upon a detailed analysis of their respective financial statement accounts. This analysis should build upon the Financial Statement Analysis and Footnote Disclosure requirements issued separately by the Office of Financial Control and Reporting.
4. Power Marketing Administrations (PMAs) - As in the past, these organizations will not be required to issue a complete management representation letter. It is assumed these organizations will provide the cognizant auditor with all the necessary assertions for the PMA's FY 2003 financial statement audit. However, the PMAs will be required to issue several assertions to the HQ CFO on the data submitted for combination with the Department's financial activity and performance measurement information. Attestations listed below may be used as a starting point.

The information provided to the Office of the Chief Financial Officer by *Power Marketing Administration* and consolidated into the Department-wide financial activity presented in the Departmental financial statements accurately reflects the Department of Energy's portion of *Power Marketing Administration's* financial activity.

Power Marketing Administration acknowledges our responsibility for the fair presentation of the (financial) performance measure information presented in the Overview and Supplemental Information sections of the financial statements. *Power Marketing Administration* believes this data to be accurate and reliable.

5. Field Elements should include all the basic assertions included in the following Management Representation Letter Format:

**MEMORANDUM FOR LEAD PROGRAM SECRETARIAL OFFICER
DEPARTMENT'S CHIEF FINANCIAL OFFICER**

FROM: HEAD OF FIELD ELEMENT

SUBJECT: FY 2003 MANAGEMENT REPRESENTATION LETTER

Obtaining a representation regarding the fair presentation of the FIELD OFFICE'S financial statements is a significant procedure in the audit of those statements. As Manager of the FIELD OFFICE, I confirm that I am responsible for the fair presentation of the FIELD OFFICE'S statements, in conformity with principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

In connection with your audit of the Department's consolidated financial statements as of September 30, 2003 and 2002, and for the years then ended, I confirm, to the best of my knowledge and belief, the following representations made to you:

1. The FIELD OFFICE'S financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you:
 - a. All financial records and related data.
 - b. If applicable, communications from OMB concerning noncompliance with or deficiencies in financial reporting practices.
3. The FIELD OFFICE is responsible for the identification of and compliance with all aspects of applicable laws, regulations, contracts, or grants that could have a direct and material effect on the financial statements in the event of noncompliance and has disclosed those aspects of laws, regulations, contracts, or grants to you.
4. The FIELD OFFICE has complied, in all material respects, with applicable laws, regulations, and contracts that could have a material effect on the financial statements in the event of noncompliance.
5. Except as disclosed to you, there have been no known:
 - a. Instances of fraud, whether or not material, involving management or other employees who have a significant role in internal control over financial reporting. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

- b. Instances of fraud involving others (e.g., recipients of Federal financial assistance or other Federal payments) that could have a material effect on the financial statements.
- c. Allegations of fraudulent financial reporting on the part of the Department received in communications from employees, former employees, or others.
- d. Allegations, either written or oral, of misstatements or other misapplications of accounting principles in the financial statements.
- e. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the financial statements.
- f. Communications from the legal counsel to either the General Counsel, the Secretary, or Deputy Secretary reporting evidence of a violation of a law or regulation or breach of fiduciary duty or similar violation by the Department or any agent thereof that would have a material effect on the financial statements.
- g. False statements affecting the financial statements made to you, the Office of Inspector General, internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
- h. Communications from other governmental entities or agencies (e.g., the U.S. Treasury) concerning noncompliance with, or deficiencies in, financial accounting practices.
- i. Communications from regulatory or oversight agencies, such as the OMB and the General Accounting Office (GAO), concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
- j. Except for unresolved recommendations in prior Office of Inspector General and GAO audit reports, which have been considered in preparing the financial statements, and those items noted in the Independent Auditors' Report, there were no known violations, or possible violations, of the following laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency:

Federal Managers' Financial Integrity Act of 1982
Federal Financial Management Improvement Act of 1996
Government Performance and Results Act of 1993
Prompt Pay Act
Anti-Deficiency Act

Pay and Allowance System for Civilian Employees
Civil Service Reform Act of 1978
Federal Employees Retirement System
Federal Employees Compensation Act of 1916
Fair Labor Standards Act of 1938
Civil Service Retirement Act of 1930
Federal Employees' Group Life Insurance Act of 1980
Federal Employees' Health Benefits Act of 1959

Laws that affect Environmental Liabilities:

Atomic Energy Act of 1954
National Environmental Policy Act of 1969
Resource Conservation and Recovery Act
Clean Water Act of 1977
Clean Air Act
Toxic Substances Control Act
Comprehensive Environmental Response, Compensation & Liab. Act of 1980
Nuclear Waste Policy Act of 1982
Federal Facility Compliance Act of 1992

Occupational Safety and Health Act of 1970
National Nuclear Security Administration Act of 1999
Energy and Water Development Appropriations Act of 2001
Government Information Security Reform Act of 2001
Homeland Security Act of 2002
Debt Collection Improvement Act of 1996
Price-Anderson Amendments Act of 1957
Safe Drinking Water Act (Amended)
Strom Thurmond National Defense Authorization Act of 1999
Energy Employees Occupational Illness Compensation Program Act of 2000

- k. Violations or possible violations of specific requirements of contracts, grants and budgetary procedures, the effects of which should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
6. Except as disclosed to you in writing, there are no known:
- a. Unasserted claims or assessments that our General Counsel or the Department of Justice General Counsel have advised us are probable of assertion and must be disclosed in accordance with the Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.
 - b. Other liabilities or gain or loss contingencies that have not been accrued that are required to be accrued or disclosed by the Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.
 - c. Material transactions (e.g., obligations or commitments) or events that have not been properly recorded in the accounting records underlying the financial statements.

- d. Purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - e. Changes in accounting principles affecting consistency.
 - f. Agreements to repurchase assets previously sold including sales with recourse.
 - g. Joint ventures.
 - h. Commitments for purchases of services or assets at prices involving material probable losses.
 - i. Losses to be sustained as a result of other than temporary declines in the fair value of investments.
 - j. Losses to be sustained in the fulfillment of, or from the inability to fulfill, any sales commitments.
 - k. Events that have occurred subsequent to September 30, 2003, and through the date of this letter, that would require adjustment to or disclosure in the financial statements, the financial statement footnotes, the required supplementary stewardship information, or in the Overview.
7. Except as noted in the Independent Auditor's Report, there are no significant deficiencies in the design or operation of internal controls which could adversely affect the FIELD OFFICE'S ability to record, process, summarize and report financial data or performance information, and we have identified no material weaknesses in internal controls. We interpret "significant deficiencies in the design or operation of internal controls" to be consistent with the concept of a "reportable condition," defined under standards established by the American Institute of Certified Public Accountants. Such standards define a "reportable condition" as a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We understand that the term "material weakness in internal control" is a reportable condition for which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
8. I acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
9. Except as disclosed in the financial statements, the FIELD OFFICE has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities. We have disclosed in the footnotes to the financial statements that future decisions, including but not limited to changes in environmental cleanup standards or remediation technologies; decisions to dispose of nuclear materials; revisions in land use or waste disposal assumptions; or reductions in Federal Government spending, could have a material effect on environmental remediation liabilities. The FIELD OFFICE will ascertain the impact on the environmental remediation liabilities once we have some assurance that a

policy, decision, or assumption is likely to be altered and make any necessary adjustments or disclosures in future financial statements.

10. I believe that the carrying amounts of all material assets are recoverable. I understand that with respect to the majority of the FIELD OFFICE assets, including nuclear materials and plant and equipment, the term "recoverable" does not imply that the FIELD OFFICE can or would recoup the assets' carrying values by selling them, but that the assets are fulfilling their intended purposes and that their serviceability has not been impaired or that any material impairments are reflected in reduced carrying values for the assets.
11. Inventories and materials are stated at historical cost in accordance with Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*, except where valuation at net realizable value is authorized by the Statement. These exceptions include (1) stockpile materials that management has determined have permanently declined in value below cost or are damaged or decayed; (2) excess, obsolete, or unserviceable items; and (3) petroleum produced for sale at the Department's Naval Petroleum Reserve. Where feasible, physical counts and measurements of inventories and stockpile materials were made and records were appropriately adjusted to reflect the physical inventories. The FIELD OFFICE'S inventory of nuclear materials is valued at standard transfer value, which approximates historical cost, except for certain nuclear materials that have been identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value.
12. FIELD OFFICE has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor have any assets been pledged as collateral. The FIELD OFFICE has commitments to the United States Enrichment Corporation under the lease for the Gaseous Diffusion Facility at Paducah, Kentucky.
13. The FIELD OFFICE has not, directly or indirectly, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit in the form of a personal loan to or for any executive officer of the Department.
14. The FIELD OFFICE has properly accounted for all property, plant and equipment sold, destroyed, abandoned, or considered to be obsolete and have no further use. The FIELD OFFICE has also properly accounted for property, plant, and equipment predominately used in environmental remediation activities.
15. All capital assets are properly categorized as either work-in-progress or completed projects as required in the Department's policy.
16. The FIELD OFFICE and its contractors have properly accounted for all internal use software that is used to operate their programs and to produce their goods and services as required by Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*. Capitalized internal use software costs are limited to those costs incurred after the completion of conceptual formulation, design, and testing of possible software project alternatives. The FIELD OFFICE and its contractors have capitalized all labor costs for employees that worked on software development projects for a substantial portion of their time.

17. All estimates developed for purposes of reporting on the FIELD OFFICE'S deferred maintenance were developed in accordance with Departmental guidance. These estimates are properly documented and readily verifiable.
18. All material intra-agency transactions and balances have been appropriately identified, eliminated, or disclosed for financial reporting purposes, unless otherwise noted. We have reconciled fiduciary transactions as required by OMB Bulletin No. 01-09.
19. Provisions, when material, have been made:
 - a. To reduce excess, obsolete, damaged, or unusable inventories to their estimated net realizable value. For example, the FIELD OFFICE has analyzed all of its nuclear materials and identified all such materials that are excess to the FIELD OFFICE'S needs and recorded appropriate allowances to record such inventories at net realizable value.
 - b. For any material adjustments of long-lived assets as a result of permanent impairment, in accordance with Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, as amended.
20. Receivables reported in the financial statements represent valid claims for sales or other charges arising on or before the balance sheet date, and have been appropriately reduced to their estimated fair value.
21. The following have been properly recorded and disclosed in the financial statements:
 - a. Related party transactions and related accounts receivable or payable, including revenues, expenditures, loans transfers, leasing arrangements, assessments and guarantees.
 - b. Financial guarantees or commitments or debt or lease agreements, whether written or oral, under which the FIELD OFFICE is contingently liable due to triggering events or otherwise.
22. All significant estimates, uncertainties, and material concentrations known to management have been properly disclosed in the financial statements. Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of reimbursable work, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal financing sources within the next year.
23. All sales transactions entered into by the FIELD OFFICE are final and there are no side agreements with customers, or other terms in effect, which allow for the return of items sold, except for defectiveness or other conditions covered by the usual and customary warranties.
24. The FIELD OFFICE believes that the actuarial assumptions and methods used to measure actuarial liabilities and costs for financial accounting purposes are appropriate in the circumstances.

25. Costs associated with the weapons life extension program have been capitalized into inventory in accordance with the provisions of Chapter 9 of the Department's Accounting Handbook.
26. The FIELD OFFICE/Department has developed a process to manage uncosted obligations (undelivered orders). This process relies on a system of controls designed to accurately report, actively manage, and reflect the Department's needs for continuity of operations.
27. Pursuant to the Federal Managers Financial Integrity Act (FMFIA), we have assessed the effectiveness of the Department's internal control in achieving the following objectives:
- a. Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of financial statements, Overview (including performance measures), RSI, and RSSI, in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition.
 - b. Compliance with applicable laws and regulations - transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws and regulations and government-wide policies that the OMB, Department management, or the Inspectors General (IG's) have identified as being significant for which compliance can be objectively measured and evaluated; and
 - c. Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed and summarized to permit the preparation of performance information in accordance with criteria stated by management.
28. Except as disclosed in the Independent Auditors' Report on Internal Control over Financial Reporting, all internal controls are operated in accordance with applicable policies and procedures and are effective in meeting the FMFIA objectives set forth above.
29. Provisions have been made for any material loss that is probable from remedial liabilities associated with all Department-owned properties. Recorded environmental remediation liabilities are based on the Department's best and most recent estimates of the expected costs, stated in fiscal year 2003 dollars, to remediate legacy facilities and contaminated sites managed by the Office of Environmental Management (EM); remediate active and surplus facilities managed by other programs; dispose of high level waste and spent nuclear fuel; and dispose of surplus nuclear materials. In support of those estimates, FIELD OFFICE maintains background and detailed cost information for all environmental liabilities identified to date, as well as information regarding pending, threatened, or unasserted claims related to the environmental project sites identified. FIELD OFFICE believes that such estimates are reasonable and that the liabilities and related loss contingencies and the expected outcome of uncertainties are adequately described in the financial statements and related footnotes. The environmental remediation liability includes adequate provisions for costs to dispose of all nuclear materials whose disposition as waste is probable (more likely than not) as defined by Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.

30. To the best of our knowledge, the findings of the specialists who prepared cost estimates for environmental remediation projects have been adequately considered in determining the amounts and disclosures used in the financial statements and underlying accounting records, and these specialists are appropriately qualified. The FIELD OFFICE is not aware of any instructions given to specialists with respect to the values or amounts derived in an attempt to bias their work, or of any matters that have had an impact on their independence or objectivity.
31. The FIELD OFFICE has properly accounted for all liabilities and commitments associated with the cessation of Portsmouth Gaseous Diffusion Plant operations by USEC and the Department's subsequent placement of the Plant into cold standby. Material commitments are properly disclosed in the financial statements.

RESEARCH AND DEVELOPMENT DATA
(Headquarters Departmental Elements and Bonneville Power Administration)

This attachment contains the requirements and instructions for reporting on research and development (R&D). The Statement of Federal Accounting Standard Number 8, "Supplementary Stewardship Reporting - Chapter 7 Research and Development," requires the Department to report expenses for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. This Standard requires Federal agencies to report on R&D costs as part of the supplementary data included with the audited financial statement in the annual Performance and Accountability Report.

Investment in research and development refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of the following three categories: Basic, Applied, and Development.

The format for submitting data is included as Attachment E-1. Attachment E-2 is a list of programs that reported R&D activities last year. This information is to be used as a starting point when preparing your submission.

Specific steps for the submission are included below:

Step 1: Complete Attachment E-1 for each program with R&D activities. In some cases organizations may have to include percentages for those Program Budget and Reporting Codes (B&Rs) that are not 100 percent R&D and for those B&Rs that are split among the three categories of R&D. This attachment will be used to formulate the Performance and Accountability Report R&D information. Once prepared, the R&D Report will be issued in draft to the applicable program organizations for review. The final Report will be included in the FY 2003 Performance and Accountability Report.

The definitions for basic, applied and development R&D included in the SFFAS Number 8 are identical to the definitions contained in OMB Circular A-11, Preparation and Submission of Budget Estimates. If you need copies of these definitions, please contact Donna Taylor on 3-3075. Please ensure that you indicate in Attachment E-1, the categories of research, and the percentage if necessary.

Step 2: Please submit all R&D information to the Office of Program Liaison and Financial Analysis (301-903-2551, fax 301-903-2550), ME-100, Room C-180, Germantown by June 15, 2003.

Step 3: Any questions regarding the Research and Development Supplementary Stewardship Reporting information should be directed to Theresa Ballinger (301-903-4128).

RESEARCH AND DEVELOPMENT
SUPPLEMENTARY STEWARDSHIP INFORMATION
For Fiscal Year Ending September 30, 2003

PROGRAM OFFICE: _____

APPROPRIATION: _____

PROGRAM: _____

Research and Development B&Rs	Category of R&D & Percentage if Necessary (Applied, Basic, Development)

Continue for each appropriation and program as necessary to address all R&D programs in your organization.

CONTACT NAME & NUMBER: _____

RESEARCH AND DEVELOPMENT PROGRAMS

Bonneville Power Administration

Energy Efficiency and Renewable Energy

Conservation R&D

Solar and Renewable Energy

Science

Basic Energy Sciences

Biological and Environmental Research

Computational and Technology Research

Fusion Energy

Energy Research Analyses

Small Business Innovation Research

University and Science Education

High Energy Physics

Nuclear Physics

Environmental Management

Fossil Energy

Fossil Energy R&D (coal, oil, gas, coop)

Clean Coal Technology

NNSA

Defense Programs

Weapons Activities

Nonproliferation and National Security

Nonproliferation and Verification R&D

Fissile Materials Disposition

Naval Reactors

Office of Intelligence

Nuclear Energy

Nuclear Energy R&D

Civilian Radioactive Waste Management